

Message Text

CONFIDENTIAL

PAGE 01 MUSCAT 01113 080909Z

22-11

ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EB-03 TRSE-00 OMB-01 PM-03 SP-02

INR-07 CIAE-00 DODE-00 EUR-08 NSC-05 NSCE-00 /051 W

----- 021322

R 080720Z SEP 76

FM AMEMBASSY MUSCAT

TO SECSTATE WASHDC 2463

INFO AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

C O N F I D E N T I A L MUSCAT 1113

LIMDIS

E.O. 11652: GDS

TAGS: EFIN BGEN MU

SUBJECT: OMAN'S DEPENDENCE ON FOREIGN LOANS

REF: (A) MUSCAT 1024, (B) MUSCAT A-55

SUMMARY: UNLIKE OTHER GULF STATES, OMAN DOES NOT ENJOY A CASH SURPLUS. EVEN IF OMAN RECEIVES ALL FOREIGN LOANS AND GRANTS FORECAST IN 1976 BUDGET (\$321 MILLION), THE OMANGOV WILL STILL HAVE UNCOVERED DEFICIT OF \$90 MILLION. THE REAL DEFICIT MAY BE MUCH LARGER, AS THE GOVERNMENT SEEMS TO USE CREATIVE ACCOUNT-ING TECHNIQUES OF MATCHING ANTICIPATED REVENUES AGAINST CURRENT EXPENDITURES, AND ACTUAL CASH SHORTFALL FOR 1976 MAY BE IN RANGE OF \$200-\$300 MILLION. SHORTAGE OF FUNDS IS DELAYING PLANNED REVENUE-GENERATING PROJECTS, WHILE RENEWED HEAVY GOVERNMENT BORROWING IS DEPRIVING PRIVATE SECTOR OF INVESTMENT CAPITAL. KNOWLEDGEABLE OBSERVERS DO NOT BELIEVE MANY NEW PRIVATE AND PUBLIC PROJECTS CAN GET UNDERWAY UNTIL MID-1978. END SUMMARY.

1. CONVERSATIONS WITH LOCAL BANKERS AND BUSINESSMEN CONFIRM OUR VIEW THAT OMAN GOVERNMENT IS BADLY SHORT OF FUNDS AND THAT GOVERNMENT FINANCES ARE SHAKIER THAN PUBLICLY ADMITTED. ACCORD-CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MUSCAT 01113 080909Z

ING TO OFFICIAL BUDGET PUBLISHED AUGUST 15, 1976, OMANGOV IS

RECEIVING R.O. 46 MILLION IN GRANTS AND R.O. 64 MILLION IN LOANS FOR DEVELOPMENT PROJECTS, LEAVING UNCOVERED DEFICIT OF R.O. 31 MILLION (\$90 MCEHIONJUG THESE FIGURES ARE DECEPTIVE, AND OMAN'S CASH NEEDS FOR THIS YEAR AND NEXT WILL PROBABLY BE MUCH HIGHER. FOR ONE THING, THE PUBLIC BUDGET MATCHES ACTUAL EXPENDITURES AGAINST ANTICIPATED LOAN AND GRANT REVENUES, SOME OF WHICH WON'T BE RECEIVED FOR SEVERAL YEARS. ACCORDING TO LOCAL BANKERS, THE GOVERNMENT HAS ALREADY SPENT MOST FUNDS ALLOCATED TO DEFENSE AND CIVIL DEVELOPMENT; OMANGOV HAS BEEN FORCED TO GO FURTHER INTO DEBT WITH LOCAL COMMERCIAL BANKS AS WELL AS FOREIGN COUNTRIES. AS OF FIRST QUARTER 1976, OMANGOV SUCCESSFULLY INCREASED ITS OFFICIAL RESERVES TO ALL-TIME HIGH OF \$287 MILLION AND COMMERCIAL FOREIGN LIABILITIES REMAINED STABLE; WHETHER OMAN CAN CONTINUE TO KEEP HEALTHY LEVEL OF FOREIGN EXCHANGE IN FACE OF MASSIVE GOVERNMENT BORROWING REMAINS TO BE SEEN.

2. MOST OF R.O. 110 MILLION (\$341 MILLION) RECEIVED BY OMANGOV THIS YEAR HAS COME FROM ROLLOVERS OF EXISTING LOANS AND FRESH MONEY FROM SAUDI ARABIA. SOME OF THESE FUNDS ARE FIRST INSTALLMENTS FOR FUTURE PROJECTS. AMOUNTS ARE NOT PRECISE, BUT WE UNDERSTAND THAT A TOTAL OF ABOUT \$170 MILLION IS EXPECTED FROM SAUDI ARABIA OVER THE NEXT FEW YEARS FOR ECONOMIC DEVELOPMENT OF DHOFAR, WHILE \$80-90 MILLION FOR RAYSUT PORT CONSTRUCTION WILL PROBABLY COME FROM THE FRG EXPORT DEVELOPMENT BANK. ABU DHABI AND KUWAIT FUNDS HAVE PROMISED \$60 MILLION FOR NATURAL GAS PIPELINE. SAUDIS MIGHT ALSO CONTRIBUTE FUNDS FOR BAC CONTRACTS, WHICH WOULD BE ESPECIALLY WELCOME TYPE OF "OFF-BALANCE-SHEET FINANCING", SINCE WE HAVE HEARD THAT OMANIS ARE NOT INCLUDING ALL COSTS OF THE JAQUAL/RAPIER CONTRACT IN PUBLISHED BUDGET FIGURES. FYI: AN AMCIT ACCOUNTANT SECONDED TO DEFENSE MINISTRY HAS INFORMED US THAT ACTUAL DEFENSE EXPENDITURES ARE MUCH HIGHER THAN PUBLISHED FIGURES. END FYI.

3. ABOUT 75 PERCENT OF LOANS AND GRANTS RECEIVED IN 1976 WILL BE USED FOR ONGOING PROJECTS. ALMOST NO MONEY IS LEFT FOR NEW PROJECTS PLANNED BY OMANGOV TO GENERATE REVENUES TO COMPENSATE FOR DECLINE IN PETROLEUM PRODUCTION.

UNFORTUNATELY, MOST REVENUE-GENERATING PROJECTS PICKED BY THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MUSCAT 01113 080909Z

GOVERNMENT ARE NOT VERY ATTRACTIVE TO COMMERCIAL BANKS OR PRIVATE INVESTORS. FOR EXAMPLE, LIMITED DOMESTIC ORE DEPOSITS AND DEPRESSED WORLD MARKET PRICE OF COPPER MAKE COPPER MINING AND REFINING PROJECT LITTLE MORE THAN A BREAK-EVEN PROPOSITION. CEMENT PLANT PROJECT HAS A 10-YEAR PAYBACK, TOO LONG A TIME FRAME FOR COMMERCIAL BANK LENDERS. (IN CONTRAST, PROPOSED PETROLEUM TOPPING PLANT HAS A QUICK PAYBACK AND WOULD BE EMINENTLY "BANKABLE".) MOST OBSERVERS SEE NO MAJOR PROJECT WITH EXCEPTION

OF GAB PIPELINE GETTING UNDERWAY BEFORE MID-1978.

4. HEAVY BORROWING BY OMANGOV IS CROWDING THE PRIVATE SECTOR OUT OF LOCAL CAPITAL MARKET. COMMERCIAL BANKS ARE RELUCTANT TO GET INVOLVED IN REAL ESTATE LOANS OR GENERAL COMMERCIAL DEVELOPMENT. RUWI VALLEY DEVELOPMENT SCHEME (WHICH WILL COST AT LEAST \$500 MILLION) AND OTHER PRIVATE SECTOR PROJECTS SON'TH VET UNDERWAY UNLESS PRIVATE FOREIGN DEVELOPERS CONTRIBUTE MOST OF CAPITAL. PROPOSED DEVELOPMENT BANK FOR INVESTMENT IN PRIORITY SECTORS HAS NOT MET WITH ENTHUSIASM.

5. WHAT IS MOST WORRISOME IS THAT OMANGOV'S ACTUAL CASH SHORTFALL FOR 1976 WILL BE MUCH HIGHER THAN ESTIMATED \$90 MILLION. FINANCE DIRECTOR MUSA RECENTLY SUGGESTED TO CITIBANK REP THAT OMANGOV WOULD WELCOME \$350 MILLION LOAN SYNDICATION IN 1977 WITH CITIBANK AS SYNDICATE MANAGER; MUSA WAS INFORMED THAT \$100 MILLION WAS MAXIMUM FEASIBLE LOAN IN COMMERCIAL MONEY MARKETS. MAJOR COMMERCIAL BANKERS REGARD PUBLISHED BUDGET AS LITTLE MORE THAN PUBLIC RELATIONS EXERCISE AND BELIEVE ACTUAL UNCOVERED DEFICIT WILL BE AT LEAST R.O. 100 MILLION (\$290 MILLION). A BBME REP BELIEVES THAT THERE IS NOTICEABLE OUTFLOW OF CAPITAL FROM OMAN CAUSED BY HIGH-RANKING OMANIS DEPOSITING PART OF THEIR PRIVATE FORTUNES IN EUROPE, IN ADDITION TO \$100 MILLION ANNUAL WAGE AND SALARY REMITTANCES BY EXPATRIATES.

6. COMMENT: OMANGOV SIMPLY WON'T HAVE ANY SURPLUS FUNDS THIS YEAR OR NEXT. CONTINUING NEED TO BORROW ON FAR LARGER SCALE THAN OTHER GULF STATES IS REDUCING FINANCIAL AND ECONOMIC ROLE THAT OMAN CAN PLAY. DESPITE SOME LAUDABLE PROGRESS IN IMPROVING BUDGETING PROCEDURES, OMANGOV HAS STILL NOT SORTED OUT ITS PRIORITIES, AND OMANGOV FINANCES WILL CONTINUE TO BE DANGEROUSLY FRAGILE.

WOLLE

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MUSCAT 01113 080909Z

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, ECONOMIC REPORTS, DEVELOPMENT PROGRAMS, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 SEP 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MUSCAT01113
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760339-0022
From: MUSCAT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760982/aaaacsck.tel
Line Count: 154
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 76 MUSCAT 1024, 76 MUSCAT A-55
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2004 by MartinML>; APPROVED <13 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OMAN'S DEPENDENCE ON FOREIGN LOANS
TAGS: EFIN, BGEN, MU
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006